

CIA Knew Of British Iraq Deal

Firm Helped Baghdad Get Arms Equipment

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The U.S. intelligence community knew that a Britain-based company was buying military-related equipment for Iraq as early as 1987, nearly three years before the firm and its U.S.-based subsidiary were ordered shut by export authorities in both countries, according to U.S. government sources.

Washington was told by the MI5 and MI6 British intelligence agencies during the three-year period about what the Matrix Churchill Corp., based in Coventry, was doing on Iraq's behalf, the sources said. London had recruited senior company officials as informants.

The disclosure confirms suspicions voiced by opposition lawmakers in both capitals last year about the secret U.S.-British exchange of data on Iraq's arms procurement network before the 1991 Persian Gulf War. It also again raises questions about why officials in Washington and London both stood by idly as Matrix Churchill supplied Baghdad with machine tools of value to Iraq's nuclear weapons program.

Sources said the information given to Washington by the British initially consisted of finished intelligence reports that generally described Matrix Churchill's activities. As early as March 1989, the information also included raw reports derived from secret interviews by British agents with Paul Henderson, the firm's managing director, and Mark Gutteridge, its export sales manager.

The CIA disseminated this information to policymakers in the Reagan and Bush administrations beginning in December 1987, just two months after Matrix Churchill was purchased by an Iraqi-controlled company, the

sources said. Previous reports had traced the agency's information back only as far as June 1989.

The secret data exchange was hinted at in a Feb. 5 report by the

The latest disclosure again raises questions about why Washington and London stood by as Matrix Churchill Corp. supplied machine tools of value to Iraq's nuclear weapons program.

Senate Select Committee on Intelligence about the Bush administration's mishandling of intelligence information about Iraq. The report said multiple raw intelligence reports received by the CIA "described the activities of Matrix Churchill as part of the Iraqi worldwide procurement network," but Britain was not identified as the source.

Rep. Henry B. Gonzalez (D-Tex.), the Banking Committee chairman who for several years has investigated U.S. ties to Iraq, cited the Senate report's disclosures in alleging that the CIA misled Congress last year about the extent of the intelligence agency's knowledge about Matrix Churchill. The agency told Gonzalez in a November 1991 letter that it had located only two classified reports on the firm.

A CIA spokesman yesterday declined to comment on Gonzalez's criticism. But a report completed last month by Frederick P. Hitz, the agency's inspector general, said that sloppiness and inattention had botched other CIA responses to the congressman's request for information.

The Senate committee reviewed U.S. intelligence on Matrix Churchill in an attempt to resolve allegations by Gonzalez and other Democratic lawmakers that the Bush administration knew about Iraq's

arms procurements during the late 1980s but failed to act. One alleged motive in the intelligence community was a desire to keep an eye on Iraqi activities at the expense of actually halting the leakage of Western technology; another was Washington's overall desire to assist Iraq as a deterrent to Iranian ambitions in the region.

The committee's inquiry also was prompted by suspicions that the CIA knew of illicit loans Matrix Churchill had obtained from the Atlanta branch of an Italian-government-owned bank, Banca Nazionale del Lavoro (BNL), before the branch's operations were halted by federal authorities in August

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R. JAMES WOOLSEY
... offers insight into CIA's thinking

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1989. The agency's mishandling of other intelligence related to the BNL bank had fanned suspicions that the CIA was trying to hide covert U.S. military aid to Iraq.

Seeking to lay these suspicions to rest, the committee said its four-month inquiry turned up no proof "that CIA had been operationally involved in assisting" the Iraqis. The conclusion was based on a review of agency documents that fell short of the independent probe

sought by some lawmakers, including the committee's new chairman, Sen. Dennis DeConcini (D-Ariz.).

In its unclassified report, the committee only roughly sketched what the CIA and other U.S. intelligence agencies knew about the Iraqi network but said there was no evidence that the CIA, unlike the British agencies, had operational sources inside Matrix Churchill. It said the CIA was never asked for assistance in monitoring the firm or even told the names of intelligence informants inside it.

In June 1989, sources said, the CIA attempted unsuccessfully to match the British intelligence agencies by developing its own sources at the firm's U.S. subsidiary in Cleveland. The attempt went awry when attorneys for the firm, when contacted by a CIA officer, declined to answer any questions about the firm's activities. The Senate report said the CIA learned of the firm's connection to BNL in September 1989, after the federal raid on the bank's Atlanta branch.

Disclosure that the CIA obtained and disseminated substantial British intelligence on Matrix Churchill's arms-related activities raises additional questions about the Commerce Department's June 1990 decision to authorize export of a sensitive glass-fiber factory to Iraq by the firm's U.S. subsidiary.

The factory, which had potential

nuclear- and missile-related applications, was sold over the objections of some lower-ranking Commerce officials to an Iraqi company known to be assisting the development of such weapons, according to internal company documents and information provided to Congress last year.

The Senate report did not attempt to explain why the U.S. government failed to take action against the firm's U.S.-based subsidiary until after Iraq's August 1990 invasion of Kuwait, under a general United Nations-backed prohibition of trade with Iraq. Nor did it speculate why the British government also failed to act before the invasion, beyond noting assertions of the media that the government wanted to preserve its access to information about Iraq's military purchases.

When asked about the CIA's handling of BNL-related information during his confirmation hearing two weeks ago, CIA Director R. James Woolsey observed: "If someone involved in intelligence, with respect to an overseas party, let's say, learns of activity that is against the interests of the United States, there is, I think, in the intelligence community often an inclination to watch and wait and to understand, because the next time . . . one might learn something more. And that next thing one learns might be something that is truly vital to the interests of the country."

"And the mindset of those who are involved in prosecuting crimes on behalf of the United States is, of course, quite different," Woolsey said. "They both are legitimate interests."